The Daily Dish

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MEGHAN MILLOY | AUGUST 31, 2015

The White House is still having trouble whipping votes for the president's Iran deal. Currently the deal is backed by only 31 senators, leaving President Obama short of the 34 he needs to avoid Congress overriding his veto of a "resolution of disapproval." During the GOP's weekly address, Chairman of the House Foreign Affairs Committee, Rep. Ed Royce, said "If this agreement goes through, Iran gets a cash bonanza, it gets a boost to its international standing, and a path toward nuclear weapons." Click here for the numbers behind the president's deal, including how it opens over $3 billion to go directly to terrorist funding.

ICYMI: Last week added $245 million in new regulatory costs. Click here to read more from AAF's Week in Regs.

The Federal Reserve is holding strong on their intent to raise interest rates before the end of the year, though after recent weeks on Wall Street, there is a question as to how they will vote this month. "There is good reason to believe that inflation will move higher as the forces holding inflation down—oil prices and import prices, particularly—dissipate further," said Fed Vice Chair, Stanley Fischer.

Eakinomics: Leave the Carried Interest Tax Alone, *Guest Authored by Meghan Milloy, AAF Director of Financial Services Policy*

Which one of these is not like the other: Hillary Clinton, Bernie Sanders, Elizabeth Warren, Donald Trump? Trick question! They're all the same. At least when it comes to one part of their tax policy – the carried interest tax. Not too surprisingly, Clinton, Sanders, and, Trump, have all come out swinging against the affluent in each of their presidential campaigns. More specifically, they have all bashed hedge fund managers and other financial partnerships for receiving what they call an "unfair" tax break.

Carried interest is an integral feature of the financial organization of partnerships, a business structure widely used in the United States and especially prominent in finance, insurance, and real estate. This structure provides the general partners with profits higher than the proportion of their capital contribution *only* if those general partners are able to meet stipulated investment goals. The business model permits entrepreneurs to match their expertise with a financial partner, assume risks, and align the parties' economic interests.

Carried interest is currently taxed at the time of sale of the partnership's real assets as a long-term capital gain at a maximum rate of 23.8 percent. However, Clinton, Sanders, and Trump have each proposed that it be taxed at the ordinary income tax rate, or just over 43 percent. They argue that this will level the income playing field and improve the economy. That is simply not the case.

In 2013 there were just under 3.5 million partnerships managing over $22 trillion in assets and generating net income of $777.9 billion. Those numbers alone indicate that increasing the tax rate would have a substantial impact on the economy. If you examine the increased taxes as a fraction of the underlying partners' incomes, the rates are shocking.

Using data from 2013 put into 2015 dollars, for the finance and insurance sector, the static implications are that over 192 percent of individual general partners' incomes would be required to match the taxes. For real estate, the rates range from 21 percent to 36 percent of their income.

As a result, financial, insurance, and real estate partnerships will be forced to react by legally restructuring or crowding out valuable transactions and investments that are no longer sufficiently profitable to bear the additional tax burden. Even more worrisome is that the higher taxes on carried interest will diminish these partnerships' ability to attract not only financial capital but also managerial talent that makes that capital productive. The prospect of lower after-tax pay will lead prospective managers to go elsewhere. And, according to the Treasury, this tax differential would only yield less than $2 billion a year – barely enough to cover two days of the Medicare program – a benefit certainly outweighed by its costs.

From the Forum

Week in Regulation by Sam Batkins, AAF Director of Regulatory Policy

Fact of the Day

Modest regulatory reform could save $48 billion in costs and 1.5 billion paperwork hours